

## Message Text

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ACTION SS-25

INFO OCT-01 ISO-00 SSO-00 /026 W  
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R 141457Z JUL 76

FM AMEMBASSY CAIRO

TO SECSTATE WASHDC 5239

C O N F I D E N T I A L CAIRO 9543

EXDIS

EO 11652: GDS

TAGS: EAID IMF EG

SUBJECT: ASSISTANCE TO EGYPT: IMF PROGRAM

REF: (A) CAIRO 9466, (B) STATE 172304

1. DICKEY CALLED AT EMBASSY JULY 14 AND VERIFIED INFORMATION CONTAINED REF B. HE CONFIRMED GUNTHER NOT PLANNING TO ATTEND JULY 17 MEETING, AND THAT HE, DICKEY, INTENDS TO STAY ON TO ASSIST GOE IN PREPARING FOR THAT SESSION.

2. LIKE GUNTHER, DICKEY HAS SYMPATHY FOR PROBLEMS PRESENTLY FACING GOE. HE ALSO FEARS THEY WILL BE GREATER, RATHER THAN SMALLER, AS RESULT OF INABILITY TO TAKE NECESSARY STEPS IN ORDER OBTAIN IMF STANDBY AND OTHER ASSISTANCE RELATED TO IT. HE SAYS THAT FOREIGN EXCHANGE SHORTAGE COULD EASILY LEAD TO MAJOR SUPPLY SHORTAGES LATER THIS YEAR: JULY 17 MEETING PROVIDES ONLY REAL HOPE FOR AVERTING FINANCIAL CRISIS.

3. DICKEY GAVE US COPY OF DRAFT STATEMENT THAT HE HAD PROVIDED TO GUNTHER SO THAT FUND COULD REPORT ON CURRENT SITUATION TO COUNTRIES ALREADY BRIEFED IN JUNE. TEXT COVERS THREE POINTS MENTIONED PARA 4, REF B, AND READS AS FOLLOWS: BEGIN TEXT. IN A MEETING OF JUNE 16, 1976, THE FUND STAFF DESCRIBED  
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TO YOUR REPRESENTATIVES AN ECONOMIC REFORM PROGRAM

FOR EGYPT. THIS PROGRAM WAS AGREED WITH THE EGYPTIAN AUTHORITIES AND WAS INTENDED TO PROVIDE THE BASIS FOR A STAND-BY ARRANGEMENT, THE REQUEST FOR WHICH WAS EXPECTED WITHIN THE FOLLOWING FEW WEEKS. THE REFORM MEASURES REPRESENTED A FIRST STEP OF A PLAN TO CORRECT THE LARGE BALANCE OF PAYMENTS DISEQUILIBRIUM AND TO RAISE DOMESTIC SAVINGS SO AS TO PROVIDE THE BASIS FOR A HIGH AND SUSTAINABLE RATE OF GROWTH. A MAJOR REALIGNMENT OF PRICES WAS INVOLVED AND THIS WOULD HAVE RESULTED IN A SUBSTANTIAL RISE IN THE GENERAL PRICE LEVEL. WHILE ELEMENTS OF THE PROGRAM INVOLVING CUTS IN SUBSIDIES, SUBSTANTIAL TRANSFERS OF IMPORTS FROM THE OFFICIAL TO A FURTHER DEPRECIATED PARALLEL MARKET RATE AND RAISING THE APPLICABLE TARIFFS ACCORDINGLY HAVE ALREADY BEEN IMPLEMENTED, THE EGYPTIAN AUTHORITIES DO NOT BELIEVE IT IS POLITICALLY FEASIBLE AT THIS TIME TO FULLY IMPLEMENT THE PROGRAM. FURTHER DISCUSSIONS BETWEEN THE EGYPTIAN REPRESENTATIVES AND THE FUND STAFF ARE PLANNED FOR LATER IN 1976. END TEXT. (NOTE: AT SHAFET'S REQUEST, DICKY MODIFIED SENTENCE FIVE BY DELETING "SOME" WHICH PRECEDED "ELEMENTS" AND ADDING ALL THE WORDS BETWEEN "PROGRAM" AND "HAVE".)

4. COMMENT: DICKY DOES NOT APPEAR UNDULY DEPRESSED, AND IN FACT IS BOTH PHILOSOPHICAL AND RELATIVELY UPBEAT OVER ENTIRE EXERCISE. HE BELIEVES EGYPTIANS HAVE DONE ALL THEY CAN, GIVEN DOMESTIC CIRCUMSTANCES. WHEN PRESSED ABOUT TIMING OF RESUMPTION OF REQUIRED STEPS, HE ADMITS THAT PERIOD IMMEDIATELY FOLLOWING ELECTIONS MAY BE A BIT TOO SOON, BUT THAT SOME TIME THIS YEAR GOE SHOULD BE ABLE TO RESUME IMPLEMENTATION. EILTS

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